



## MEMORANDUM

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**Date:** September 25, 2018

**To:** Hugo López, Director

**cc:** Connie M. Perez-Andreesen, Commissioner, Audit Committee  
Nicole Soluri, Chief Deputy Director  
Sharon Allen, Deputy Director, Sales and Marketing Division  
Terry Murphy, Deputy Director, Operations Division  
Nicholas Buchen, Deputy Director, Finance Division  
Christopher Fernandez, Deputy Director, Human Resources Division  
Jon Schlussler, Acting Deputy Director, Information Technology Services Division  
David Cole, Assistant Deputy Director, Sales Division  
Vincent Espinosa, Chief Enterprise Risk Officer

**From:** Roberto Zavala, Deputy Director  
Internal Audits

**Subject:** Sales Procurement Process Audit – Audit Report

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Internal Audits has completed the Sales Procurement Process Audit covering the period of January 1, 2017 through December 31, 2017. The purpose of the audit was to determine if policies, procedures and internal controls were in place to provide Lottery Management with reasonable assurances that the procurement process, employed in the Sales Division, provided proper and effective accountability. Specifically, we reviewed the processes utilized by the Sales Division in procuring materials and services for trainings, seminars and conferences, organized for or participated in by the Lottery's sales personnel and retailers.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

On February 27, 2018, while the audit was in progress, we issued an interim audit report containing our initial audit findings. The report was intended to provide information to management so that corrective actions could be evaluated to mitigate potential risks identified in the audit, considering that planning for the year's seminars and conferences was about to start or might have already started at that time.

The full audit findings and observations are detailed in the attached Audit Report.

We requested from Sales Division a written response to the draft audit report. The response is shown at the end of this report (Attachment II).

We would like to thank all Lottery staff for the courtesy and cooperation extended during this engagement. If you have any questions on this report, please contact me at (916) 822-8358.



**GIVING BACK**  
TO CALIFORNIA COMMUNITIES

**California Lottery**  
**Sales Procurement Process Audit**  
January 1, 2017 to December 31, 2017

July 2018  
2017-18 090 IA

## **Sales Procurement Process Audit Report**

### **Table of Contents**

<b>Executive Summary</b>	<b>1</b>
Background	1
Objective, Scope and Methodology	1
Results of Review	1
View of Officials	2
Restricted Use	2
<b>Audit Findings</b>	<b>3</b>
Audit Finding No. 1: Weak Internal Controls Over Sales Procurement Process	3
Audit Finding No. 2: Lack of Documentation in Planning Sales Training Conferences	4
Audit Finding No. 3: No Review and Approval of IGT Conference Expenses	6
Audit Finding No. 4: Lack of Guidelines for Conducting Other Sales Training Programs	9
<b>Attachments</b>	
Summary of IGT Expenses - 2017 Retailer Conferences	Attachment I
Management Response to Audit Report	Attachment II

## **Executive Summary**

<b>Background</b>	The California Lottery (Lottery) regularly conducts training conferences – sometimes referred to as tradeshows - for its sales personnel and Lottery retailers. These conferences are intended to update attendees on current developments in the Lottery as well as motivate them to achieve sales targets. They also serve, among other things, as a vehicle for announcing new Lottery products and obtaining ideas on how to better attain the Lottery's mandated mission of providing supplemental funding to public education.
	In a report on a prior marketing promotions audit, Internal Audits noted the lack of a formalized process in the procurement of certain training tools intended for distribution at one of the training conferences. To determine if existing procedures at the Lottery provide adequate and effective controls in the procurement of products and services related to training conferences, Lottery Management requested Internal Audits to conduct a review of the Lottery's Sales procurement process.
<b>Objective, Scope and Methodology</b>	The objective of the audit was to determine if policies, procedures and internal controls were in place to provide Lottery Management with a reasonable degree of assurance, that the Sales Division procurement process for training conferences provides proper and effective accountability.

The period covered by the audit was from January 1, 2017 through December 31, 2017.

The procedures performed in conducting the audit included the following:

- Review of procurement policies, guidelines and procedures
- Interview of key personnel
- Analysis of transactions, and examination of supporting documentation

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

**Results of Review**

We noted the following findings and observations, which are detailed in this report:

1. **Weak internal controls over Sales procurement process.** Our review of the Sales Division procurement process revealed weakness in internal controls mostly caused by lack of defined procedures.
2. **Lack of documentation in planning sales training conferences.** Planning of training conferences is essentially based on what transpired during the previous conferences. Decisions on how the training conferences were developed are not fully documented.
3. **No review and approval of IGT conference expenses.** Training conference expenses claimed by gaming vendor IGT against the \$200,000 training contribution were not properly or adequately reviewed.
4. **Lack of guidelines for conducting other sales training programs.** Because of lack of written procedures, the process or processes used to procure training materials could not be ascertained if they were in accordance with established policies and procedures.

**View of Officials** We provided Sales Division with a draft report on our audit findings on August 20, 2018 and we received a response on September 11, 2018. Sales Division agreed with our audit findings and are in the process of implementing suggested remedial measures.

The complete response is shown at the end of this report (Attachment II).

**Restricted Use** This report is intended for the information and use of the California Lottery; it is not intended to be and should not be used by anyone else other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.



Roberto Zavala  
Deputy Director, Internal Audits  
July 18, 2018

## Audit Findings

### Audit Finding No. 1: Weak Internal Controls Over Sales Procurement Process

**Condition** One of the major functions of the Sales Division is to train and educate its personnel and Lottery retailers on how best to achieve the Lottery's mission of providing supplemental funding to public education. This function is carried out essentially through training conferences for Sales personnel and Lottery retailers.

In organizing and holding these conferences, Sales Division purchases materials and services for use at such conferences. To verify the adequacy and effectiveness of internal controls over the Sales procurement process, we reviewed documentation of certain purchases made during the period under audit. The following are our findings:

a) Same items covered by two separate purchase orders. The Lottery issued the following purchase orders to Freeman Decorating for the procurement of décor, electrical and freight services for the 2017 Retailers Conference:

- Purchase Order #18596 dated 3/1/17 for \$19,739.55; and
- Purchase Order #18728 dated 5/24/17 for \$22,266.10

The supporting document attached to the first order (PO #18596) was a price quotation, while the second order (PO #18728) had a Freeman invoice as supporting documentation. Reviewing the transaction, we noted that the items covered by both POs appeared to be the same items. Verifying with Accounting Operations if the transactions had been paid, we were informed that only PO #18728 had been paid and PO #18596 was still outstanding in the system. A later examination of the supporting documentation of the transaction revealed that a check had been cut for the unpaid PO, but the check was voided and never issued to the vendor. Accounting Operations said the outstanding and unpaid PO would be cancelled.

b) Contradictory information on the mode of procurement. The Justification Memo dated 7/27/16 for the purchase of learning aids for the 2016 Sales Seminar (covered by PO #18290 dated 8/9/16 to Just Call Inc. for \$13,548.94) indicated that a competitive bid was conducted in which Just Call Inc. was the successful bidder. Page 2 of the memo, however, notes that "*bids were not solicited since this is a sponsorship, a non-competitive situation,*" contradicting the information shown on the first page.

c) Erroneous/misleading price/bid information. Quality Logo Products, Inc. was one of the vendors that had been solicited to submit price quotes for the items required under PO #18290 (same order cited in the preceding paragraph). Apparently, because of changes in order quantities, the prices quoted by Quality Logo Products were recalculated to account for such quantity changes. The recalculations were handwritten on the vendor's quote sheets. We examined the information on the quote sheets and these are our findings:

- The recalculated bid price for backpacks was shown at \$13,355.25. We believe the correct amount should have been \$7,074.00 only. The error was in the setup fee. The

recalculated price included a setup fee of \$6,331.25, but the vendor quoted a setup fee of only \$50.00. The same mistake was noted on the quotation for the tablet stand. The vendor quoted a setup fee of \$35.00 for the item while the recalculation showed a setup fee of \$3,101.00. In both instances, the correct bid amounts were lower than documented.

- It appears Quality Logo Products offered a "super sale" price on retractable badge holders for \$0.73 each. The staff who evaluated the bid, however, disregarded such sale price and instead used the regular price of \$1.14 for the items in calculating the total bid price, justifying such decision by writing on the quote sheet "*at the time of the quote they were not on sale.*" The note, however, did not indicate when the original quote was requested.
- The quantities used to obtain the quotes were not the same as the quantities required, thereby necessitating the recalculation of the bid prices for evaluation. There were five items for which the vendor quoted prices, and all showed quantities that differed with those shown on the justification memo. For instance, the order quantity indicated on the memo was 400 pcs each for four items, but the quantity used for soliciting prices from Quality Logo Products ranged from 250 to 375 pcs. No explanation was indicated on the documentation what caused the change in order quantities or whether the solicited quotation met the Sales Division's quantity requirements.

<b>Criteria</b>	Best management practices recommend that operating policies and implementing guidelines are made in writing and that these policies are duly communicated to all concerned. Internal controls dictate that duties and responsibilities relating to the initiation, review and approval of transactions are performed as much as possible by separate individuals.
<b>Recommendation</b>	We recommend that the Sales Division develops written policies and procedures for the procurement of products and services for its sales training conferences and related activities. The procedures to be developed should sufficiently define and properly delineate procurement functions, and responsibilities. A written document would provide, all personnel involved in the procurement process, clear and proper guidance in performing their assigned duties and responsibilities.
<b>Management Response</b>	<i>Sales staff has been developing a procedures manual for sales employees since July 2018. Moreover, detailed procurement procedures such as required approvals, competitive bid requirements, and relevant documentation will be included. Sales staff will work with the legal office, contract development services, and accounting to ensure accuracy.</i>
<b>Internal Audits Comment</b>	<i>We agree with the response.</i>

#### **Audit Finding No. 2: Lack of Documentation in Planning Sales Training Conferences**

<b>Condition</b>	Sales Division, based on interviews with staff and our review of documentation, is essentially planning its Sales training conferences or events based on what transpired the previous years. There are no written procedures that would guide Sales staff in planning and executing these events. Sales Division,
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however, memorializes the processes performed by compiling key event documents in a binder. The binders, which are kept by a key Sales staff, are then used as a reference for the next similar event. However, the binders lack documentation that memorializes event analysis, meeting minutes or final decisions. A relatively new Sales staff would not be able to easily discern the processes or steps employed in producing the information contained in the binders.

Based on our review of the binders containing event documents for the 2016 and 2017 Sales Training Seminars and Retailers Conferences, we further noted the following:

- a) Planning Committee. The binder for the 2017 Sales Training Seminar indicated that a "Planning Committee" was formed to plan the event. The documents, however, do not indicate who selected the members, what responsibilities were given to the group, and who had the authority to review and approve the committee's output.
- b) Event Planning Guidelines. We came across a two-page document titled "Lottery Event Planning Guidelines." It appears to be an attempt to put in writing the processes involved in planning and executing Sales events. The document presents a general outline of the planning process used for Sales events. Although the document calls itself a manual, it lacks the necessary ingredients or components of an operating manual. To be effective, an operating manual should specify the step by step procedures of a process, assign tasks and responsibilities, specify outputs and deliverables, and identify the authority to move the process forward.

We believe it would be more effective and efficient if formal written step by step procedures are developed and used by the Sales Division for staging Sales events.

<b>Criteria</b>	Best management practices recommend that operating policies and procedures should be in written form to ensure consistency in application. Written procedures also facilitate turnover of duties and responsibilities from an outgoing staff to an incoming one.
<b>Recommendation</b>	<p>Written procedures for planning and implementing Sales training seminars as well as other Sales events should be developed and maintained. While completing this task, Sales Division may consider implementing the following recommendations for an upcoming Sales events (Note: Some of these are already being performed by Sales Division):</p> <ul style="list-style-type: none"><li>• Issue a formal justification memo to initiate the holding of an event. The memo should contain among others the purpose of the event, cost estimates, resources needed and the benefit the Lottery would realize from such an event.</li><li>• Officially appoint a Project Manager for the event, with duties and responsibilities clearly articulated.</li><li>• Record and document all meetings held, particularly those held during the planning stage.</li><li>• Keep and file supporting documents for any event items or training tools procured.</li><li>• File all documents in a properly labelled binder.</li></ul>

In prior years, soon after the Lottery was cited for holding an employee recognition event in 2007, the Lottery Director, at the time, formed a Fiscal

Oversight Committee tasked with reviewing plans and projected expenses for Lottery related events. The Committee functioned for some time, but became inactive a few years thereafter, due to organizational and personnel changes brought about by the change in Lottery administration.

The Lottery may want to consider re-activating the Fiscal Oversight Committee while the Sales Division's procurement systems and procedures are being developed.

In developing procedures, Sales Division may use as reference the operating procedures developed by the Marketing Division in staging promotional events. Alternatively, the Sales Division could adopt the Project Management framework used by EPMO (Enterprise Project Management Office) in planning and managing projects.

<b>Management Response</b>	<i>Sales staff is in the process of developing a sales planning procedures document which will be incorporated into the procedures desk manual. Procedures will include how to develop agendas and meeting minutes, document decisions, and other key information relative to sales events.</i>
<b>Internal Audits Comment</b>	<i>We agree with the response.</i>

#### **Audit Finding No. 3: No Review and Approval of IGT Conference Expenses**

**Condition** In 2017, IGT submitted, to the Lottery, expenses incurred for the three training conferences held that year amounting to \$92,658.22. We confirmed that the Lottery billed IGT the balance of \$107,341.78 for that year. The IGT expenses were supported by documentary evidence such as receipts, invoices and statements of accounts. A spreadsheet itemizing the expenses was also submitted. We were informed that the IGT expenses were initially presented to Sales personnel for review and then submitted to Accounting personnel for final review and recording. We were unable to completely confirm the review process used, because some of the personnel involved in the process are no longer with the Lottery.

Based on interviews and documentation, a thorough understanding of the contract and each of the parties' responsibility were not established for Amendment A10, 6.12.8.1 Change Order 3-32 of the IGT contract before costs were incurred. A post award session involving parties that would be pre-approving deliverables, receiving deliverables, reviewing invoices/costs, approving final billings and monitoring budgeted costs, did not occur. As a result, no implementation guidelines were developed to properly interpret and execute the above cited IGT contract amendment. As a note, the Lottery's Legal Office was consulted during the initial year of the amendment's implementation, and it determined that IGT could recover incurred conference costs from the \$200,000 training contribution.

We examined the supporting documents submitted by IGT. And based on this examination, we believe that the documents were not adequately reviewed by the Lottery. The only indication that the documents were somehow reviewed was the recalculation made on certain hotel and car rental bills to reconcile the days billed to match actual conference days. Otherwise, we did not find any evidence that Lottery personnel reviewed the expenses as to their propriety, necessity or legitimacy.

*Please refer to Attachment I of this report for the itemized listing of conference expenses incurred by IGT in 2017. Summary notations found at the bottom of the spreadsheet are Internal Audits'.*

The following are the results of our review of the supporting documents submitted by IGT:

- a) Questionable propriety of certain purchases. The absence of a thorough understanding of the contract and each Lottery personnel's responsibility, made it difficult to evaluate the appropriateness of expenses claimed by IGT. This, however, should not have prevented Lottery personnel from requesting justification for expenses that might be considered at face value unusual or unnecessary. The IGT conference expenses included the following without accompanying justification:
  - IGT Travel Reimbursements
  - A Polaroid camera
  - 20,000 baseball bat pens
  - 12,000 sets of "Lottery Training Manuals"
  - 3,000 sets of "CA Lottery Retailer Easy Guide"  
*[Note: Only 892 sets of the manuals and guides were charged to the Lottery, which presumably corresponds to the number of conference participants.]*
- b) Non-application of Lottery regulations. The Lottery normally requires its contractors and vendors to observe Lottery regulations when conducting business with the Lottery. One of the regulations requires that a supplier or vendor should conduct or solicit competitive bids when procuring products or services valued at more than \$10,000. This requirement appears to have been overlooked in purchases made from the following vendors:
  - CalGraphics (baseball caps) - \$14,065.92
  - 4 Imprint (duffel bags) - \$15,740.72
  - All Products Promo (bat pens) - \$16,924.36
- c) Use of price quotations as supporting document. A couple of documents from vendor 4 Imprint were price quotations. No covering invoices were found among the submitted documents. These price quotations were presented as supporting documentation (i.e., invoice) for the expense.
- d) Missing invoice/supporting document. We noted that one of the itemized expenses in the spreadsheet - purchase of baseball caps from CalGraphics for \$14,065.92 - was not supported by an invoice or receipt of payment.
- e) Invoices included in the submission but not listed. We found invoices among the submission that were not included in the itemized spreadsheet listing. We found a Courtyard Marriott bill for \$406.83 and a National car rental bill for \$140 but no indication why they were excluded from the list.
- f) IGT travel costs. Travel costs incurred by IGT staff included payments for lodging, car rentals, parking, airfares, taxi fares and mileage.

Based on our examination of the documents, the costs were duly supported by bills and receipts. As previously mentioned, some of the hotel bills were manually recalculated and reduced to reflect actual conference days as it appears, some staff stayed at the place longer than the duration of the conference. One of the travel costs reimbursed; however, was for air travel originating from Florida airports. The plane tickets showed that the flights were for travel by an IGT staff from Florida to California and back. The documents did not provide any explanation for why the staff had to travel from Florida.

**Criteria** Based on the contract with IGT, Lottery's gaming vendor, costs incurred for training conferences organized for retailers and Lottery sales personnel, are to be shared between the Lottery and IGT. Per the agreement, IGT (formerly GTECH) is obligated to pay the Lottery training costs up to \$200,000 per year. Amendment A10, 6.12.8.1 Change Order 3-32 of the contract with IGT provides as follows:

*"3. Develop and provide training conferences for the Lottery Retailers and District Sales Representatives (DSR) throughout the State, not to exceed \$200,000 per year in cost to GTECH. These services shall remain in effect from date of this Amendment through the expiration of this Contract."*

**Recommendation** We recommend that key Lottery functions develop a thorough understanding of Amendment A10, 6.12.8.1 Change Order 3-32 and each of the contracting parties' responsibilities. Critical stakeholders such as the IGT Contract Manager, Sales and Marketing, Contract Administration Services and the Finance Division should be engaged in the review and approval of conference expenditures. Emphasis should be placed on allowable costs, expense limits and adherence to Lottery regulations, where applicable, and each stakeholder's responsibilities over the review and approval of conference expenses. Moreover, the Lottery's Contract Manager's Handbook should be consulted and more specifically the following:

*"If appropriate for a particular contract, a Contract Management Plan (CMP) may be prepared by the CM [Contract Manager] prior to Contractor onboarding. A CMP should contain all key information about how the contract will be managed and outline the ways in which the CM will ensure that the Contractor complies with the contract's terms and conditions. A CMP is a useful tool that will enable the CM to:*

- Develop a thorough understanding of the contract and the parties' responsibilities.*
- Establish a system against which the performance of both parties can be monitored so problems can be identified early.*

*"If a CMP is used, development of the CMP should begin during the procurement planning stage and the CMP should be reviewed and updated throughout the procurement process and the contract term. The level of detail included in a CMP may vary depending on the contract.*

*"Types of things that can be included in a CMP are:*

- Identification of staff involved in managing the contract and their expected responsibilities.*
- Performance measures to be used.*

- *Important contract milestones.*
- *Reporting requirements.*
- *Insurance/bonding requirements.*
- *Required notifications.*"

**Management Response**

*The Finance Division will clarify that state expenditure rules will apply to all IGT training expenses, including travel costs. It will work for a mutually agreed upon expense standard with IGT for application going forward. All future IGT purchases will be approved by the IGT contract manager.*

*The Lottery is currently evaluating how to best use the \$200,000 annual training allocation.*

**Internal Audits Comment**

*We agree with the response; however, it is important to note that the Contract Administration Services unit currently involved in monitoring and reviewing IGT contract billings should be engaged or included in the training contribution expenditures review and approval process.*

**Audit Finding No. 4: Lack of Guidelines for Conducting Other Sales Training Programs**

**Condition**

In 2016 and 2017, based on our examination of purchase orders issued during the period, the Lottery spent \$66,908.82 for the training of Lottery personnel using the training system offered by Ken Blanchard Companies. A total of nine training sessions (including a training for trainers) were conducted under the Ken Blanchard system.

The program was started with a 5-day "Situational Leadership Training for Trainers" for two Sales staff in San Diego on May 16-20, 2016. The training of other Lottery staff using the Ken Blanchard system followed thereafter. Based on a Lottery Learning Center (LLC) generated report provided to us by the Human Resources Division, a total of 102 Lottery personnel attended 2-day, in-house, Situational Leadership Training sessions under the Ken Blanchard program. Feedback from participants regarding the program was said to be positive.

A total of nine purchase orders were issued to Ken Blanchard for the training. In our review of the purchase orders, we noted the following:

- a) Justification memos signed off by staff. The justification memo for the initial "Training for trainers" was duly reviewed and approved by Sales management. However, the justification memos for the subsequent procurement of training materials from Ken Blanchard, were signed off and approved by Sales staff. The documentation we reviewed did not indicate any delegation of authority to the staff for signing off and approving the justification memos.
- b) No list of training participants. The purchase orders issued to Ken Blanchard for the materials used in the training programs were priced based on the number of participants, which was indicated in the documents. However, no lists of participants were included in the documentation; thus, we were unable to verify the accuracy of the information in the purchase orders.

Because of lack of written operating procedures, we could not ascertain if the process or processes used in procuring the training materials from Ken Blanchard, were in accordance with established policies and procedures.

<b>Criteria</b>	Policy guidelines provide consistency to established procedures. Written procedures provide managers and other decision makers the necessary guidance in making informed decisions.
<b>Recommendation</b>	We recommend that the Sales Division develop and implement appropriate guidelines for the procurement of training programs intended for Sales staff. The guidelines may be developed in association with the Human Resources Division and should include, where appropriate, criteria for evaluating, reviewing and approving the training programs.
<b>Management Response</b>	<i>The Sales Division is collaborating with the Human Resources Division to review and assess all sales staff training, and to develop desk procedures that will guide sales training staff on future training procurements.</i>
<b>Internal Audits Comment</b>	<i>We agree with the response.</i>

**Attachment I**

Employee or Vendor	Airfare	Lodging	Office Supplies / Printing Expenses	Other	Manuals	Signage/Banners	Comments
Maria Baker		\$780.62					
Irene Belafros		\$280.62		\$15.00			Other: Parking
Joe Cord		\$181.98		\$25.00			Other: Parking
Adolfo (Jay) Dironz	\$356.88	\$560.24					
Irene Fries	\$222.88	\$561.24		\$140.31			
Gerardine (Gen) Keller	\$356.88	\$1,014.49	\$33.80	\$195.74			Other: Auto Rental, Parking, Mileage
Kathleen Lavigne	\$352.78	\$889.62		\$311.90			Other: Gasoline, Auto Rental, Parking, Tax!
Ruth McDaniel All wein	\$455.78	\$889.62					
Mayra Schota <sup>3</sup>	\$401.80	\$889.62	\$575.25	\$108.54			Other: Parking
Chad Sunderland	\$143.88	\$333.08		\$144.24			
Albert Trujillo		\$516.16					
Cheryl Voris	\$1,337.51	\$1,232.05		\$191.13			Other: Mileage, Gasoline, Parking
Young Yun	\$530.77	\$843.13		\$314.80			Other: Gasoline, Auto Rental, Parking, Mileage
Alfredo Delgado <sup>4</sup>		\$197.81		\$49.00			
Christophe Rodriguez	\$412.96	\$409.04		\$27.00			
José Seriano	\$412.96	\$682.66		\$27.00			
Crystal Bolanos	\$197.87	\$4,085.30	\$68.94				
Balloon Guru			\$888.03				Other: Balloon arch and column decorations (San Diego)
Alcone			\$8,160.78				Other: 26 Hot Spot Tables with chairs (Raffle prizes)
Balloon Creations by Carolyn			\$844.35				Other: Balloon arch and column decorations (Sacramento)
Commerce Printing <sup>5</sup>		\$7122.52		\$1,307.12			Draw Games Flash Cards (892 sets), Training Manuals (992)
Commerce Printing <sup>6</sup>		\$2,749.55					Draw Games Posters
Dilco					\$961.43		Badges
Balloon Haven			\$864.56				Other: Balloon arch and column decorations (Pomona)
Just Call							\$7,140.50/500 Wall Clocks - early bird registration prizes
4 Imprint <sup>7</sup>							\$15,740.72 Premiums - Duffel Bags
ePromos							\$3,541.60 Premiums: Baseball Stress Balls
CalGraphics [Hats] <sup>8</sup>							\$14,065.92 Premiums: Baseball Caps
All Products Promo [bat pens] <sup>9</sup>							\$16,924.36 Premiums: Baseball Bat pens
Totals <sup>10</sup>	\$5,202.95	\$11,260.38	\$4,150.06	\$12,367.38	\$1,302.32	\$58,374.53	
							Grand Total x \$32,658.22

**AUDIT NOTES:**

<sup>1</sup> Office supplies charges include cost of Polaroid camera and accessories worth \$470.46.

<sup>2</sup> Other expenses has no supporting documentation.

<sup>3</sup> Quantity ordered totaled 12,000 for training manuals and 3,000 for easy guide pamphlets; however, only 892 were charged to lottery

<sup>4</sup> Supporting document for one of the three transactions was a price quotation rather than an invoice.

<sup>5</sup> No supporting documents

<sup>6</sup> Total order quantity was for 20,000 pens. [Sales Division says 10,000 pens were moved to the Lottery's warehouse]

<sup>7</sup> Two receipts for lodging and car rental amounting to \$365.70 found among the documents were not included.

**Attachment II**

**Management Response to the Audit Report**



## MEMORANDUM

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**Date:** September 11, 2018

**To:** Roberto Zavala, Deputy Director, Internal Audits

**Prepared by:** Cathy Powell, Chief, Sales Administration

**From:** Sharon Allen, Deputy Director  
Sales & Marketing 

**Subject:** 2017 Sales Procurement Process Internal Audit Response

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This memorandum is in response to the Sales Procurement Process Internal Audit Report dated August 20, 2018 submitted by the Lottery Internal Audits Office.

The results of review of the internal audit conducted from January 1, 2017 through December 31, 2017 indicated:

1. **Weak internal controls over Sales procurement process.** Our review of the procurement process at the Sales Division revealed weakness in internal controls mostly caused by lack of defined procedures.

Since July 2018, sales staff have been in the process of developing a procedures manual for sales employees. Additionally, each sales employee will be assigned a back-up staff person who will be responsible for assuming the responsibilities of the employee when they are absent.

Detailed procurement procedures are being drafted for the sales unit desk manual which will address purchasing procedures, including the required approvals, competitive bid requirements, and all relevant documentation. The sales unit will also be required to maintain historical files, and update and maintain the procurement procedures.

Sales staff will work with the legal office, contract development services, and accounting unit to ensure the accuracy of the procedures.

2. **Lack of documentation of decisions made in planning sales training conferences.** Planning of training conferences is essentially based on what transpired during the previous conferences. Decisions on how the training conferences were developed are not full documented.

The sales unit is in the process of developing a sales planning procedures document to be included in the procedures desk manual. These procedures will include a process around the development of the planning committee meeting agendas and minutes, documented decisions, deliverables, identification of assignments/responsibilities, training agenda development, justifications, approvals, and instructions on training execution. The sales unit will also be required to maintain historical files, and update and maintain the sales training planning procedures.

3. No review and approval of IGT conference expenses. Training conference expenses claimed by gaming vendor IGT against the \$200,000 training contribution were not properly or adequately reviewed.

Staff in the Accounting Operations unit of the Lottery's Finance Division performed a high-level review of all IGT expenses claimed for the retailer trade show. The IGT expenses were itemized in a spreadsheet provided by IGT, along with the hardcopy receipts for backup. Accounting Operations' high-level review generally entailed comparing IGT costs for a given trade show to the costs claimed by IGT for the previous year's trade show to identify outliers. Because of a lack of specific guidelines or procedures in the IGT contract amendment that allows IGT to develop and provide trade shows at a cost not to exceed \$200,000 per year, accounting operations staff could not measure the expenses claimed by IGT against specific stated parameters.

The Lottery is currently evaluating how best to use the \$200,000 training allocation in future. Going forward, the Finance Division will clarify that all IGT training expenses shall be reviewed with the same scrutiny as any state expenditure. For example, even though the IGT contract does not explicitly address travel costs, Accounting Operations will apply state travel rules to any travel expenses claimed by IGT for the retailer trade show or sales training (e.g., any lodging expenses claimed by IGT will be limited to the allowable state rate for state employees, rental car reimbursement will be limited to compact or intermediate models, parking will be limited to the least-costly option, etc.). The Finance Division will develop clear expectations and guidelines for IGT training expenses, and the Lottery and IGT will mutually agree to those standards to be applied moving forward.

Any purchases made by IGT on behalf of the Lottery will be reviewed and approved by the IGT contract manager.

4. Lack of guidelines for developing and conducting other sales training programs. Because of lack of written procedures, the process or processes used to procure training materials could not be ascertained if they were in accordance with established policies and procedures.

**The Sales & Marketing and Human Resources Divisions are currently reviewing and assessing all sales staff training. Mandatory trainings will be delivered by the Human Resources Division. Equipment training will be provided by vendor IGT whose offices are located throughout the state.**

**Currently, there are no plans to procure training materials for sales staff; however, desk procedures will be developed by current sales training staff to ensure the guidelines for future training procurements are developed in coordination with the Human Resources Division and its training unit.**